NOTES

WASHINGTON NOTES

President Taft has sent to Congress (March 26, 1912) the second textile report of the Tariff Board (H.R. Doc. No. 643, 62d Congress, 2d session). This deals with cotton manufactures. Mr. Taft urges action in accordance with the terms of the report turned in by the board and states that in his judgment the showing is favorable to a very considerable reduction of rates. The report of the board is by no means so long as the report on wool completed by it some time ago. Moreover, it adopts a somewhat different method of presentation. There was no necessity for making any special study of raw material, inasmuch as there is no tariff either in England or the United States upon cotton. The two countries are found to be upon substantially the same basis as respects access to the staple. With reference to cotton yarns, the board apparently succeeded only in getting costs from some eight yarn mills in Lancashire. On fabrics, what purport to be the costs were obtained by the same sample method that was followed in the wool inquiry—that is to say, samples of fabrics were sent to different mills and the latter were asked to estimate the cost of producing them. Then the inquiry was pursued through the various stages of dyeing, finishing, mercerizing, etc. The results ascertained are in some respects rather remarkable. Differences in cost of yarns as shown by the board run only from about 3 to about 13 per cent of the total foreign cost of production of the yarn. In unbleached cotton fabrics, it does not appear that the United States is at any disadvantage whatever. In bleached fabrics and in the finer grades of goods there is some apparent difference in cost, if the figures of the board are taken as correct. But in the main, with the exception of some few classes of operations and perhaps some few special fabrics, the United States is shown to be fully able to compete with foreign

countries. That it can do so in many lines of goods has, of course, already been demonstrated by the fact that we export coarse cottons very largely to China and the East. It would now seem from the report of the Tariff Board that the only reason why we do not exhibit our superiority in more lines is the fact that a far more profitable market is assured to the textile manufacturer here at home. How this market is retained and exploited is clearly set forth in the report, although apparently without any conception, or at least any admission, of the connection between the methods employed and the tariff situation. The report shows the existence of a system of trade practices whereby prices are maintained; and, when slight variations occur in mill charges, the resulting advance in price to the jobber and retailer is multiplied several times in the retail price and is handed on at this higher figure by the retailer to the consumer. This shows why it is that many classes of goods are sold at very much higher figures in the United States than they are in England, notwithstanding the fact that the cost of production here is actually lower than it is abroad. In other words, the competition, between mills in the United States appears, in many lines at least, to have cut out the surplus or excess profit afforded by the tariff, yet this profit has not gone to the consumer but has been retained by the middleman. The fair conclusion from the report, despite all efforts to conceal it, is that in dealing with all except the very finest grades of cotton textiles, we may entirely disregard the protective idea, inasmuch as the industry is as efficient here as it is anywhere in the world. These findings are proving a very serious blow to those cotton manufacturers who are able to profit by special arrangements of duties under the existing tariff.

The Ways and Means Committee of the House of Representatives has furnished a sharp and elaborate criticism in reply to the report of the Tariff Board on wool and manufactures thereof already discussed in these pages. This criticism is embodied in a report of the Ways and Means Committee (No. 455, 62d Congress, 2d session) filed in the House on March 27. The report begins by taking direct issue with the cost of production theory upon which the report of the Tariff Board is founded. It is pointed out that this cost of production theory assumes that the "costs" which are to be used as the foundation for tariff duties are really money expenses of production and that these furnish no guide whatever for a comparison of the competitive power of different countries. Inasmuch as the difficulties in the way of actually ascertaining money cost

upon a comparative basis are practically insuperable, the effort to adjust tariff duties upon the suggested plan completely breaks down in practice as it is said to do in theory. The report then takes up the Tariff Board's work from a statistical point of view, and shows that the report of the board is seriously at fault in its failure to separate the costs of wool and mutton, these being left to depend upon one another, so that there is no actual solution of the problem of joint cost of the two products nor any satisfactory method of treating this joint cost in such a way as to make the results available for any practical purpose. With reference to manufactures, it is noted that few if any real costs were obtained by the board abroad, and that what the board chiefly did was to secure a series of estimates on samples of fabrics which were sent abroad for that purpose, or were obtained abroad and estimated in American mills, as the case might be. It is further shown that very extensive variations in cost, so great as entirely to vitiate the basis of the comparison, have been found by the board to exist. These variations were due partly to the taking of data on a non-comparable basis and partly to erroneous statistical methods such as could not be sanctioned by any capable cost accountant. In a further analysis of the findings of the board made for the purpose of ascertaining what rates of duty on wool are technically indicated as necessary, the Ways and Means Committee points out that the apparent inference properly to be drawn from the board's figures would be that raw wool should be free. It is found, however, that in some three or four states the cost of production shown to exist is high enough to warrant a duty of perhaps 20 or 25 per cent ad valorem. Prices, it is found, do not indicate the necessity for any duty whatever, as the western wools sell successfully on a basis of competition with the wools imported from Australia. This of course is a comparison founded upon data obtained from mills which reported their actual payments for wools of specified classes. Further analysis of the board's report is said to indicate the need of a duty of not to exceed 5 per cent on "tops"—the intermediate product between wool and yarn which is now so highly protected. On yarns the committee thinks that the board shows the necessity of from 5 to 10 per cent, while on fabrics perhaps 15 to 20 per cent additional would suffice. The conclusion is therefore reached that the rates of the Underwood bill of last session are sufficiently sustained by the board, even should the report of that organization be taken as the normal or standard guide. That it is such the committee entirely denies, and as this document shows it absolutely rejects not only the theory but also the methods upon which the board has sought to do its work.

The first complete report of the so-called Federal Commission on Economy and Efficiency in the government service has been placed before Congress in the form of two large volumes (H.R. Doc. No. 458, 62d Congress, 2d session). This is accompanied with an earnest request on the part of the administration for action designed to carry into effect some of the suggested changes and also for more money to be used in maintaining the commission. The report notes that the investigation has resulted in urging the abolition of various services such as the revenue cutter service, the so-called "Returns Office" of the Department of the Interior, various local offices, and the like; that analysis has shown the necessity of classifying local officials of the government in a better way than at present and of providing for superannuation in the civil service; that reforms can be introduced in regard to business methods, filing systems, etc., in the several executive departments; that insurance is now unduly expensive; that travel expenses for government employees are unnecessarily large, and that improvements might be made in the present statement of the federal budget. With these recommendations is submitted a long "summary outline of the government of the United States" which extends through many hundred pages. In this "outline" every service and group of officials is enumerated with classifications and subclassifications, a number and symbol being assigned to each. It is not made clear what benefit will be obtained from this outline, but apparently the view of the commission is that it should be used as a basis for completely reorganizing the personnel of the government upon a standardized system. The commission says: "Much of the value of the present report will be lost unless the outlines of organization are adopted as the basis for a system that will furnish a record of the manner in which the government is organized, in such a way that the information will be available at all times, not only to the services themselves, but to all persons interested in the conduct of government affairs." The report then goes on to show how this work of developing the "outline" should be carried to its logical conclusion. What has actually been done by the commission thus far is now shown to be very little more than the practical recommendation of certain routine savings that have been under consideration for a good while. What it has recommended in the way of superannuation systems, extension of the civil service, classification of officials, improvement of administrative machinery, and the like, is chiefly matter that has been dealt with for a long time past by reformers. The changes suggested are all or nearly all good and desirable and if introduced would rectify existing evils in the federal service to a very

considerable extent. The trouble is that political conditions will not permit of these changes. If they would, many of the suggested alterations would have been introduced long before now. Not a few of them could be introduced by the President today, were he so minded, simply by the issuance of an executive order adopting the new method, as for example has been done in the reform of the consular and diplomatic services during the past five years. The outline of the organization of the government is of no material service, and is considered by capable students to be waste effort. There is no probability that it will result in anything. Many of the other suggestions of the commission, such as the reform of the budget, are as admirable as they are familiar, but are out of the question in view of the provisions of existing law. It seems likely that the commission will go out of existence with little accomplished, beyond this general survey of the federal executive organization.

One of the most important investigations thus far carried on by the Bureau of Corporations has been made public in the form of a report on water-power development in the United States (under date of March 14, 1912). The report consists of three parts, the first reviewing the physical condition and economic aspects of water power, the second the concentration of ownership and control, and the third a discussion of water power in its relation to the public. Of the three, the one which is likely to elicit greatest attention at the present moment is the discussion of the concentration of ownership and control. The report shows that there is an increase in concentration of the control of water power by certain large interests; that extensive relationships exist between water-power interests, public-service companies, and banks; that there is a need for the development of our water power as promptly and completely as practicable, inasmuch as the use of water power means the conservation of fuel; and that there is need for a definite public policy with respect to water power. The effective means of applying such a policy is found in the control of power sites. It cannot, the report states, be applied by fixing the price of water power independently of fuel cost. In the aggregate the total stationary power now used in the United States, including steam, water, and gas, is shown to be about 30,000,000 horse-power, while the total developed water power is about 6,000,000 horse-power. The bureau considers only developments of 1,000 horse-power and over, which aggregate about 4,000,000 horse-power, and of this three-fourths is commercial horse-power, produced for sale. The water power now economically capable of development probably does not

exceed 25,000,000 horse-power. The bulk of the developed and undeveloped power is mainly in the far western states, the lake states, and certain Atlantic seaboard states. Concentration is proceeding as a result of economy in operation, specialization in engineering enterprise, and the elimination of competition. In California six power corporations control over 86 per cent of all the developed power in the state, in Washington two companies control 70 per cent, in southern Michigan one concern controls 73 per cent. Like conditions exist in Montana, Colorado, Georgia, and at Niagara Falls. There are ten groups of interests each controlling or influencing through mutual directors and officers over 50,000 horse-power. The largest interest is the General Electric Company while the second is the Stone and Webster interest. Other groups are the Hydraulic Power Company and the Pacific Gas and Electric Company. The investigation of the bureau shows why the public cannot be protected by the plan of fixing the selling price of water power by itself. Fuel power will substantially fix the price of all power, because there is practically no considerable area in the United States where water power can supply the entire demand for power. Of course, water power cannot be sold above the price of fuel power. On the other hand, if the price of water power be fixed by law below that of fuel power, not all the community, in most instances, can be served with the cheaper power, and an unfair discrimination must result. If water power be taken by itself, there is, broadly speaking, but one effective method of control, in so far as the power sites are still public property. The public can either develop and operate the site, selling the energy at market rates, or the public may lease the site at a rental fairly representing its natural value. In either case the public treasury will get the profit due to that natural value. There may be certain exceptional instances which would justify the outright sale of public power sites. The rental system, however, presents according to the bureau distinct advantages—foremost of all, that of retaining in the public hands the ultimate control of the resource. Assured public control is peculiarly desirable, because, broadly speaking, water power is inexhaustible and permanent and therein differs from almost all the other natural resources, which are expended in their using.

An interesting step in the direction of federal industrial legislation which may have far-reaching results has been taken by Congress in the act of April 9, 1912 (Public Act No. 181, 62d Congress, 2d session), providing for a tax upon white phosphorus matches. This measure

is intended to tax out of existence the white phosphorus match industry on the ground of the extremely unhealthful nature of the business, and the tendency of the ingredients employed to produce a dangerous disease among the operatives. The bill has been strongly urged by the American Association for Labor Legislation and was earnestly opposed because of its use of the taxing power to effect a change in industrial relationships. The essential provision of the bill is a requirement relating to the packing and taxation of the white phosphorus matches which reads as follows:

SEC. 3. That all white phosphorus matches shall be packed by the manufacturer thereof in packages containing one hundred, two hundred, five hundred, one thousand, or one thousand five hundred matches each, which shall then be packed by the manufacturer in packages containing not less than fourteen thousand four hundred matches, and upon white phosphorus matches manufactured, sold, or removed there shall be levied and collected a tax at the rate of two cents per one hundred matches, which shall be represented by adhesive stamps, and this tax shall be paid by the manufacturer thereof, who shall affix to every package containing one hundred, two hundred, five hundred, one thousand, or one thousand five hundred matches such stamp of the required value and shall place thereon the initials of his name and the date on which such stamp is affixed, so that the same may not again be used. Every person who fraudulently makes use of an adhesive stamp to denote any tax imposed by this section without so effectually canceling such stamp shall forfeit the sum of fifty dollars for every stamp in respect to which such offense is committed.

This is accompanied by a provision relating to importation as follows:

SEC. 10. That on and after January first, nineteen hundred and thirteen, white phosphorus matches, manufactured wholly or in part in any foreign country, shall not be entitled to entry at any of the ports of the United States, and the importation thereof is hereby prohibited. All matches imported into the United States shall be accompanied by such certificate of official inspection by the government of the country in which such matches were manufactured as shall satisfy the Secretary of the Treasury that they are not white phosphorus matches. The Secretary of the Treasury is authorized and directed to prescribe such regulations as may be necessary for the enforcement of the provision of this section.

Exportation of white phosphorus matches is prohibited after January 1, 1914.